Buffalo Discovery Fund

QUARTERLY
COMMENTARY

September 30, 2022

Capital Market Overview

The stock market extended year-to-date losses during the 3rd quarter and has now fallen for three consecutive quarters. The S&P 500 Index retreated by -4.88% from July 1st to September 30th bringing the YTD total return to -23.87%, which is bear market territory. Stubbornly-high inflation, aggressive interest rate increases, rising fear of a recession, and expectations for softer corporate earnings in the upcoming reporting period were the main headwinds. The Federal Reserve's hawkish stance on inflation resulted in two more oversized federal funds rate hikes during the quarter, bringing the target rate to 3.00%-3.25%. Federal Reserve officials also signaled for additional rate hikes moving forward and holding higher rates for as long as necessary to curb inflation, even if it leads to economic pain. Short-term Treasury yields (two-year notes) are higher than long-term yields (10-year notes) and the yield curve is now inverted by the most since 2000, an indication of a potential recession.

The broad-based Russell 3000 Index declined -4.46% in the quarter and has fallen -24.62% year-to-date. Value stocks fell more than growth stocks during the quarter as the Russell 3000 Value Index returned -5.56% versus a return of -3.37% for the Russell 3000 Growth Index. Relative performance improved going down in market cap size as small caps declined less than large caps in the quarter. Larger cap stocks, as measured by the Russell 1000 Index, returned –4.61% compared to the smaller cap Russell 2000 Index return of –2.19% and the Russell Microcap Index return of -0.48%.

Performance Commentary

The Buffalo Discovery Fund (BUFTX) declined 2.36% for the quarter versus a 0.65% decline for the Russell Midcap Growth Index. Relative underperformance came from the Healthcare and Financials sectors, more than offsetting strong performance in the Technology sector. The broader equity market continues to be driven by the interest rate cycle and Federal Reserve (the "Fed") efforts to slow the economy and tame inflation. The 10-year Treasury yield moved up another 85 basis points this quarter, putting the benchmark yield at 3.80% versus just 1.45% to start the year. 30-year mortgage rates have seen an even more dramatic move, rising to nearly 7.0% in recent weeks, the highest level in 20 years. High inflation and increased financing costs are driving a dramatic slowdown in consumer spending growth, which in turn is making companies more cautious as they budget for expenses and capital spending in 2023.

Average Annualized Performance (%)

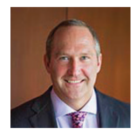
As of 9/30/22	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - ***BUFTX***	-30.12	1.66	5.28	9.99	8.52	8.30
Institutional Class - ***BUITX***[1]	-30.00	1.82	5.45	10.15	8.68	8.46
Russell Midcap Growth Index	-29.50	4.26	7.62	10.85	8.01	8.27
Morningstar U.S. Mid Growth Index	-32.42	5.50	8.76	10.93	7.78	–
Morningstar Mid-Cap Growth Category	-29.18	5.10	7.27	10.14	7.29	6.53

[1]For performance prior to 7/1/19 (Inception Date of Institutional Class), performance of the Investor Class shares is used and includes expenses not applicable and lower than those of Investor Class shares. Data represented reflects past performance and is no guarantee of future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original value. Current performance may be lower or higher than the performance quoted. Performance current to the most recent month end may be obtained by visiting the Funds' website at buffalofunds.com. Each Morningstar category average represents a universe of funds with similar objectives.

Fund Facts

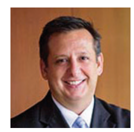
	Investor	*Institutional*
Ticker:	BUFTX	BUITX
Inception Date:	4/16/01	7/1/19
Expense Ratio:	1.00%	0.86%
Fund Assets:	$933.77 Million	
Category:	Mid Cap Growth	
Benchmark:	Russell Midcap Growth Index	

Management Team



Dave Carlsen, CFA

Co-Manager since 2004
B.B.A. – Univ. of Wisconsin-Madison



Jamie Cuellar, CFA

Co-Manager since 2020
M.B.A. – Southern Methodist
B.B.A. – Univ. of San Diego

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This has clearly been a challenging year for investors as the stimulus-fueled COVID recovery of 2021 has given way to decades-high inflation and a dramatic slowdown in global economic growth. Between war, supply chain disruption, inflation, European recession, and higher interest rates, the market has digested a lot of bad news. We expect innovative, competitively-advantaged growth companies to outperform their peers in such an environment, leading to attractive risk-adjusted returns over a full economic cycle. We remain steadfast in our mission to invest in innovative growth companies while maintaining a consistent discipline around valuation and risk.

↑ Top Contributors

Calix (CALX) was the largest contributor to performance during the quarter. The company develops and markets communications software, systems, and services to smaller broadband service providers. The Fund initiated a position earlier this year following a pullback in the stock despite no negative change in the company's fundamentals. Calix continued to see strong demand for its products and has successfully transformed its business into a higher margin platform company from a legacy hardware provider.

Trade Desk (TTD) was another positive contributor for the quarter. The company offers marketers a cloud-based platform for the efficient purchase of advertising spots across a variety of formats and channels, with a particularly large opportunity as ad dollars move into streaming TV. We have always thought highly of the company and its products and initiated a position in the stock during the market selloff this summer. Trade Desk subsequently reported a strong quarter and continued to see 20%-plus revenue growth despite a challenging backdrop for overall ad spending. The company is channel agnostic, provides the broadest selection of inventory to buyers, and benefits from the shift of media engagement towards digital, on-demand consumption. It is also well-positioned in a changing regulatory and privacy landscape.

↓ Top Detractors

Avantor (AVTR) was the top detractor for the quarter. Avantor is a leading provider of consumables, equipment, and services to research scientists and laboratories around the world. The company guided full-year revenues roughly 3% below consensus due to a combination of foreign currency headwinds, reduced expectations for M&A, and less contribution from its COVID-related businesses. Investors are also concerned about slower growth for biotech funding as the cost of capital has increased. Despite these near-term headwinds, we believe the company is well-positioned for long-term growth and believe the shares are substantially undervalued.

Azenta (AZTA) was also a detractor during the quarter. Following the sale of its semiconductor business, Azenta is now a pure-play life sciences company with a cash-rich balance sheet. The company has carved out a clinical research niche by offering both cold storage repositories for biological tissue samples and genomic analysis services to leading biopharma companies. Headwinds from currency (FX), China lockdowns, and COVID-related revenues are weighing on near-term results. However, the long-term trend towards biologics and cell & gene therapy have not slowed, and these new drugs require a materially different infrastructure for storage and shipping that is beneficial to the company.

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Outlook

Our outlook for the market is little changed from last update just a few months ago. We expect companies to provide cautious earnings guidance for the next few quarters due to slowing economic activity, currency headwinds, increased promotional activity, and inflationary cost pressures. On a positive note, we are seeing signs that the Fed's aggressive efforts to combat inflation are working. We have seen prices peak for gasoline, shipping containers, used cars, and numerous commodities. Unfortunately, however, it typically takes several quarters before this cost relief flows through to consumer prices. With headline inflation expected to remain elevated and labor markets tight, it seems unlikely the Fed will waver from its plan for two more outsized interest rate hikes this cycle.

Our strategy is to take a long-term, risk-aware view and build positions in our highest conviction companies as the risk/reward tradeoff improves. Recessions don't last forever – the average recession since 1950 has lasted 10 months with the longest at 18 months – and stocks typically move higher before the economic downturn ends. We expect interest rates to remain elevated for some time, therefore we are leaning into dominant companies with strong balance sheets generating attractive returns on capital investment. We're also holding a little more cash in the near term to take advantage of opportunities where heightened investor fear and market volatility leads to overreactions. We believe investing in innovative, well-managed companies with durable competitive advantages trading at attractive valuations will continue to generate outsized multi-year returns. Thank you for your continued trust and support.

Interested in more info?

For questions or to speak with a relationship manager about adding any of the 10 Buffalo Funds to your portfolio, contact:

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The Fund's investment objectives, risks, charges, and expenses must be considered carefully before investing. The summary and statutory prospectuses contain this and other important information about the investment company and can be obtained by calling (800) 49-BUFFALO or visiting buffalofunds.com. Read carefully before investing.

Earnings growth is not representative of the Fund's future performance. Investing in both actively and passively managed mutual funds involves risk and principal loss is possible. Mutual fund investing involves risk. Principal loss is possible. The Fund invests in small and mid-cap companies, which involve additional risks such as limited liquidity and greater volatility than large-cap companies. The Fund invests in foreign securities which involve greater volatility and political, economic, and currency risks as well as differences in accounting methods.

As of 6/30/22 the Buffalo Discovery Fund top 10 equity holdings were MSCI 2.28%, Avantor 2.03%, Tenable Holdings 1.89%, AMETEK 1.88%, Horizon Therapeutics 1.79%, GoDaddy 1.67%, Martin Marietta Materials 1.65%, Copart 1.65%, HealthEquity 1.62%, S&P Global 1.56%. Top 10 holdings for the quarter are not disclosed until 60 days after quarter end.

The opinions expressed are those of the Portfolio Managers and are subject to change, are not guaranteed and should not be considered recommendations to buy or sell any security. Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any security. The S&P 500 Index is a capitalization weighted index of 500 large capitalization stocks which is designed to measure broad domestic securities markets. The Russell 3000 Index measures the performance of the 3,000 largest publicly held companies incorporated in the U.S. based on market capitalization. The Russell 3000 Value Index is based on the Russell 3000 Index, of companies with lower price-to-book ratios and lower expected growth rates which measures how U.S. stocks in the equity value segment perform. The Russell 3000 Growth Index is a market-capitalization weighted index that measures the performance of those Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth rates. The Russell 1000 Index is a subset of the Russell 3000 Index and measures the performance of the 1,000 largest publicly-held companies incorporated in the U.S. based on market capitalization. The Russell 2000 Index is an unmanaged index that consists of the smallest 2,000 securities in the Russell 3000 Index, representing approximately 10% of the Russell 3000 total market capitalization. The Russel Microcap Index is a n unmanaged capitalization weighted index of 2,000 small cap and micro cap companies. The Russell Midcap Index measures performance of the 800 smallest companies in the Russell 1000 Index. The Morningstar U.S. Mid Growth Index measures the performance of U.S. mid-cap stocks that are expected to grow at a faster pace than the rest of the market as measured by forward earnings, historical earnings, book value, cash flow and sales. One cannot invest directly in an index. Cash flow is a measure of the cash produced by the firm in a given period on behalf of equity holders. The true measure of the value of a firm's equity is considered to be the present value of all free cash flows. A basis point is one hundredth of a percentage point (0.01%). Yield is the income return on an investment. Refers to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

Kornitzer Capital Management is the advisor to the Buffalo Funds, which are distributed by Quasar Distributors, LLC.

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